SaskTel

Financial Statements of

SASKATOON 2 PROPERTIES LIMITED PARTNERSHIP

December 31, 2006

KPMG

KPMG LLP
Chartered Accountants
600 - 128 Fourth Avenue South
Saskatoon SK S7K 1M8

Telephone (306) 934-6200
Fax (306) 934-6233
Internet www.kpmg.ca

AUDITORS' REPORT TO THE LIMITED PARTNERS

We have audited the statement of financial position of Saskatoon 2 Properties Limited Partnership as at December 31, 2006 and the statements of operations, limited partners' equity and cash flows for the year then ended. These financial statements are the responsibility of the Partnership's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Partnership as at December 31, 2006 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants

Saskatoon, Canada
February 8, 2007

KPMG LLP, a Canadian limited liability partnership is the Canadian member firm of KPMG International, a Swiss cooperative.

Statement of Operations

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating revenues	$4,028	$3,932
Operating expenses		
Operations	1,829	1,893
Depreciation and amortization	596	577
	2,425	2,470
Income from operations	1,603	1,462
Interest expense	632	652
Net income	$971	$810

See accompanying notes

Statement of Limited Partners' Equity

For the year ended December 31, (Thousands of dollars)	2006	2005
Balance, beginning of year	$548	$747
Net income	971	810
	1,519	1,557
Partners' withdrawals	(1,100)	(1,009)
Balance, end of year	$419	$548

See accompanying notes

Statement of Financial Position

As at December 31, (Thousands of dollars)	2006	2005
Assets		
Current assets		
Cash	$597	$554
Accounts receivable	34	45
Prepaid expenses	208	24
	839	623
Leasing costs and tenant inducements (Note 3)	756	886
Real estate assets (Note 4)	9,211	9,677
	$10,806	$11,186
Liabilities and limited partners' equity		
Current liabilities		
Accounts payable and accrued liabilities	$336	$262
Current portion of long-term debt (Note 5)	349	328
	685	590
Deferred revenue	24	21
Long-term debt (Note 5)	9,678	10,027
	10,387	10,638
Limited partners' equity		
Partners' capital, 101 units issued at $1.00 per unit	-	-
Partners' equity	419	548
	419	548
	$10,806	$11,186

See accompanying notes

On behalf of the Partnership

Robert Watson

Mike Anderson

Statement of Cash Flows

For the year ended December 31, (Thousands of dollars)	2006	2005
Operating activities		
Net income	**$971**	$810
Adjustments to reconcile net income to cash provided by operating activities		
Depreciation and amortization	**596**	577
Net change in non-cash working capital (Note 6)	**(96)**	(75)
Cash provided by operating activities	**1,471**	1,312
Investing activities		
Repayment of loan receivable	**-**	188
Leasing costs and tenant inducements	**-**	(213)
Real estate expenditures	**-**	(127)
Cash used in investing activities	**-**	(152)
Financing activities		
Partners' withdrawals	**(1,100)**	(1,009)
Repayment of long-term debt	**(328)**	(308)
Cash used in financing activities	**(1,428)**	(1,317)
Increase (decrease) in cash	**43**	(157)
Cash, beginning of year	**554**	711
Cash, end of year	**$597**	$554
Interest paid	**$632**	$651

See Accompanying Notes

Notes to Financial Statements

Note 1 – Description of Business

Saskatoon 2 Properties Limited Partnership (the Partnership) is registered as a limited partnership in accordance with the *Partnership Act* of the Province of Saskatchewan. The Partnership was established for the purpose of acquiring and operating the Saskatoon Square (the rental property) located in Saskatoon, Saskatchewan. Colliers McClocklin Real Estate Corp. has been appointed as the rental property manager. The rental property is registered in the name of the Saskatoon 2 Management Ltd., general partner, who holds its interest in the rental property as the bare trustee for the Partnership.

The financial statements include only the assets, liabilities, capital, revenue and expenses of the Partnership and do not include any other assets, liabilities, revenues or expenses of the Partners.

Note 2 – Summary of significant accounting policies

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in Canada.

Leasing costs and tenant inducements

Tenant inducement costs are capitalized and amortized over the term of the related leases.

Real estate assets

Real estate assets are recorded at cost less accumulated depreciation and amortization. Depreciation and amortization is computed on a straight-line basis over the estimated useful life of the asset.

Asset	Estimated useful life
Buildings	25 years
Deferred financing costs	5 years
Parkade lease	17 years

Revenue recognition

The Partnership recognizes rental revenues evenly throughout the term of the lease.

Income taxes

As the Partnership is unincorporated, no provision has been made in the accounts for partners' income taxes. These statements are of the Partnership only and do not include any other assets, liabilities, revenues and expenses of the limited partners.

Notes to Financial Statements

Note 2 – Summary of significant accounting policies, continued

Use of estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Management periodically reviews the carrying value of the Partnership's real estate assets and if management determines that the carrying value cannot be recovered from future cash flows, the unrecoverable amount is written off against income. Periodic reviews are also done of the estimated useful lives of the real estate assets to determine an adequate charge against income for amortization expense. The inherent uncertainty involved in making such estimates and assumptions may impact the actual results reported in future periods.

Note 3 – Leasing costs and tenant inducements

	2006	2005
	(Thousands of dollars)	
Leasing costs and tenant inducements	$1,068	$1,068
Less accumulated amortization	312	182
	$756	$886

Amortization for the year totalled $129,989 (2005 - $116,761).

Note 4 – Real estate assets

	Cost	Accumulated depreciation and amortization	Net book value	
			2006	2005
			(Thousands of dollars)	
Buildings	$9,091	$1,168	$7,923	$8,287
Deferred financing costs	191	124	67	105
Land	367	-	367	367
Parkade lease	1,060	206	854	918
	$10,709	$1,498	$9,211	$9,677

Depreciation and amortization for the year totaled $465,577 (2005 - $460,516).

Notes to Financial Statements

Note 5 – Long-term debt

	2006	2005
	(Thousands of dollars)	
Due to The Manufacturers Life Insurance Company, secured by way of a first mortgage on the real property, bearing interest at 6.28% amortized over 20 years; blended monthly installments of $80,078; due October, 2013	**$10,027**	$10,355
Less current portion of long-term debt	**349**	328
	$9,678	$10,027

Approximate principal repayments due in the next five years are as follows:

	(Thousands of dollars)
2007	$349
2008	371
2009	396
2010	420
2011	447

Note 6 – Net change in non-cash working capital

	2006	2005
	(Thousands of dollars)	
Accounts receivable	**$11**	$31
Prepaid expenses	**(184)**	7
Accounts payable and accrued liabilities	**74**	(118)
Deferred revenue	**3**	5
	$(96)	$(75)

Note 7 – Commitments and contingencies

The Partnership is committed to an annual payment of $22,902 pursuant to an elevator maintenance contract expiring September 30, 2009. The payments are subject to annual escalation changes.

In the normal course of operations, the Partnership becomes involved in various claims and litigation. While the final outcome with respect to claims and litigation pending at December 31, 2006 cannot be predicted with certainty, it is the opinion of management that their resolution will not have a material adverse effect on the Partnership's financial position or results of operations.

Notes to Financial Statements

Note 8 – Financial instruments

Fair value

Fair values approximate amounts at which financial instruments could be exchanged between willing parties based on current markets for instruments with similar characteristics such as risk, principal and remaining maturities. Fair values are estimates using present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates that reflect varying degrees of risk. Therefore, due to the use of judgment and future-orientated information, aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

At year end, the carrying value of all financial instruments approximates fair value with the following exceptions stated in thousands of dollars:

	2006		2005	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Long-term debt	**$10,027**	**$11,035**	$10,355	$11,091

Note 9 – Related party transactions

Included in these financial statements are transactions with various Saskatchewan Crown Corporations, departments, agencies, boards and commissions related to Crown Investments Corporation of Saskatchewan (CIC) by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan and the Saskatchewan Telecommunications Holding Corporation (collectively referred to as "related parties"). Also included are transactions with corporations and partnerships controlled by members of the Partnership.

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding with corporations and partnerships controlled by members of the Partnership and entities under common or joint control or significant influence with the Government of Saskatchewan are as follows:

	2006	2005
	(Thousands of dollars)	
Operating revenues	**$1,878**	$1,855
Operating expenses	**142**	166
Accounts receivable	**11**	17
Accounts payable and accrued liabilities	**16**	32

In addition, the Partnership pays Saskatchewan Provincial Sales Tax to the Saskatchewan Department of Finance on all taxable purchases. Taxes paid are recorded as part of the cost of those purchases.

Other amounts and transactions due to (from) related parties and terms of settlement are described separately in these financial statements and notes hereto.